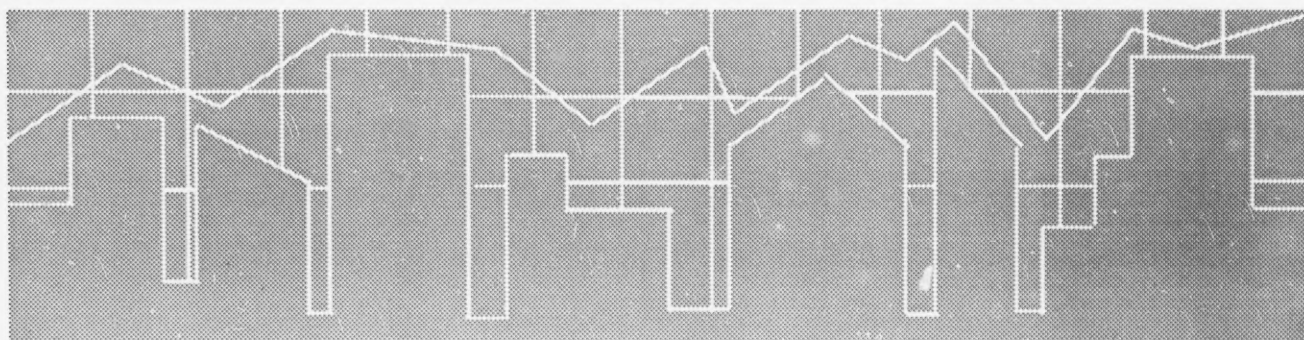


ALABAMA ECONOMIC OUTLOOK 1990 UPDATE



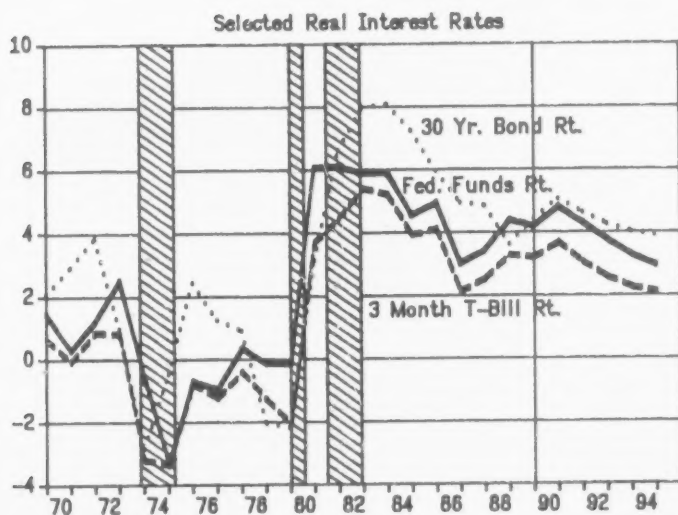
The University of Alabama Center for Business and Economic Research May 1990

The Future Is Not Always What It Appears To Be

Several recent events have caused economic forecasters to rethink their estimates for 1990. The significant upward revision of the fourth quarter 1989 Gross National Product (GNP) growth rate from a rather anemic 0.5 percent preliminary estimate to a final rate of 1.1 percent surprised many observers. Add to this revision the first quarter 1990 GNP growth of 2.1 percent and the economy begins to look like it is rebounding quite nicely. Or is it?

The objective of the Federal Reserve Board engineered "soft landing" was to reduce the buildup of inflationary pressures on the

economy without causing a recession. While recent GNP growth rates have removed any fear of an impending recession, continuing inflationary pressures are producing caution in the financial markets. During the first quarter of 1990, for example, the implicit price deflator (a broader measure of inflation than the consumer price index) increased at an average annual rate of 5.7 percent--the highest inflation rate in eight years. In view of these inflation numbers, many observers are convinced that the Federal Reserve Board's relatively tight monetary position will continue and some believe interest rates may rise further during the second quarter. With national unemployment rates as low as they have been in recent months (5.3 percent as of March 1990), there will probably be little political pressure on the Federal Reserve Board to abandon its present monetary policy.



The relatively high interest rates in the United States have been partially responsible for the recent rise in the value of the dollar. Normally this would result in higher imports and lower exports. However, rising interest rates in both Japan and Germany, a strong demand for West German marks, and a sluggish U.S. economy have minimized the impact of a stronger dollar on the trade deficit.

The bottom line is that even though GNP growth rates indicate that the economy has avoided a recession and that growth is resuming, inflation worries continue. Thus, interest rates are not expected to fall in the near future. As long as real interest rates remain at relatively high levels, the national economy is not likely to grow faster than a

forecasted 2.0 to 2.2 percent growth rate during 1990.

Higher bond yields will put additional pressure on corporate debt levels, further weakening the U.S. manufacturing sector. However, these higher yields may also pressure the Federal Reserve to lower short term interest rates during the middle to latter part of 1990. While lower interest rates could stimulate the economy to faster growth, we do not look for this to occur until after the second quarter of 1990.

Downward pressures on the price of crude oil in the first quarter of 1990 are expected to continue throughout the year. If interest rates start to fall, lower energy costs and cheaper money could provide a strong stimulus during the fourth quarter of 1990.

Despite current monetary policies, the services sector of the economy, which is not very sensitive to business cycles and interest rates, should continue to perform well in 1990. Employment in the U.S. services sector is expected to grow at an average annual rate of 3.7 percent, offsetting some of the losses projected for manufacturing sector employment.

Outlook for Alabama

Given the national trends outlined above, Alabama can expect to experience only modest economic growth in 1990. Relatively high real rates of interest negatively impact the manufacturing sector, a sector that is very important to Alabama's economy. Given the current interest rate forecasts, estimates show that the state's real output will increase just 1.7 percent in 1990, considerably below the growth rate of 3.3 percent seen in 1989. Improvement in the state's economy is projected for 1991, with real output expected to grow by 2.7 percent.

Unemployment is expected to average 7.8 percent in 1990, up from 7.1 percent in 1989. The rate should remain close to 8.0 percent through 1992. The outlook for employment in Alabama's manufacturing sector has weakened, with an increase of just 0.4 percent forecasted for 1990. However,

recent developments in mining have significantly improved that sector's outlook with employment expected to grow by 4.4 percent in 1990.

Forecast Highlights

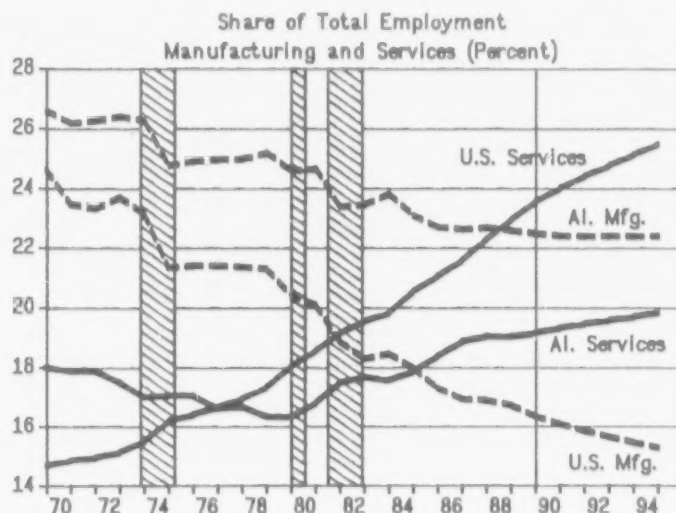
United States

Real GNP is expected to increase by approximately 1.9 percent in 1990, 2.4 percent in 1991, and 2.6 percent in 1992.

Consumer spending is estimated to increase by 2.4 percent in 1990. The share of total GNP accounted for by consumer spending is expected to be approximately 65 percent. Consumption expenditures are expected to increase by 2.3 percent in 1991 and by 2.2 percent in 1992.

The inflation rate, as measured by the consumer price index, is expected to average 4.2 percent in 1990, 3.8 percent in 1991, and 4.5 percent in 1992.

The U.S. unemployment rate is expected to increase slightly over its 1989 level, reaching 5.7 percent in 1990, 5.8 percent in 1991, and 5.7 percent in 1992.



Inflationary pressures, together with a soft economy and high interest rates, are expected to keep the domestic rate of investment low in 1990. Gross domestic private investment is expected to increase by 0.3 percent in 1990, 3.5 percent in 1991, and 3.1 percent in 1992.

After declining from a 1988 level of \$75 billion to \$53 billion in 1989, the U.S. merchandise trade deficit is expected to increase slightly to \$56 billion in 1990. It is expected to drop to \$51 billion in 1991 and to \$33 billion in 1992.

Oil prices, as measured by the refiners' acquisition cost, are expected to average \$18.30 in 1990, \$18.00 in 1991, and \$19.00 in 1992.

The implied NIPA federal government deficits are expected to be \$146 billion in FY1990, \$122 billion in FY1991, and \$101 billion in FY1992.

The Federal Reserve is expected to remain neutral until late summer or early fall when economic activity is expected to pick up and inflationary pressures will start to build. The federal funds rate should average about 8.3 percent in 1990, 8.6 percent in 1991, and 8.75 percent in 1992.

Alabama

Real state output is expected to increase by 1.7 percent in 1990, 2.7 percent in 1991, and 2.9 percent in 1992.

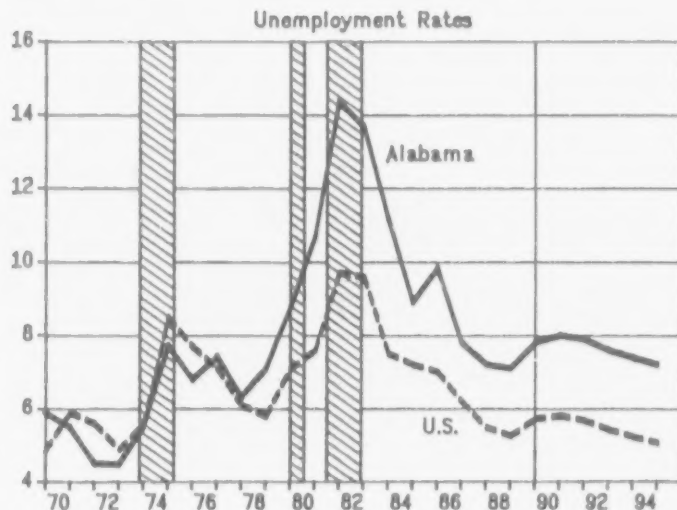
Total state employment is estimated to increase by 1.1 percent in 1990, 1.6 percent in 1991, and 1.8 percent in 1992.

The unemployment rate in Alabama is expected to average 7.8 percent in 1990, 8.0 percent in 1991, and 7.9 percent in 1992.

Total personal income (nominal) in the state is expected to increase by 6.4 percent in 1990. Total personal income should increase by 6.5 percent in 1991 and by 7.1 percent in 1992.

Per capita income in Alabama is expected to reach \$14,532 in 1990, approximately 77.4 percent of U.S. per capita income. The state's per capita income is estimated to be \$15,367 in 1991 and \$16,337 in 1992.

Total real manufacturing output in Alabama is estimated to increase at an average annual rate of 1.8 percent in 1990, 3.4 percent in 1991, and 4.0 percent in 1992. Manufacturing employment is expected to increase by only 0.4 percent in 1990, 1.1 percent in 1991, and 1.6 percent in 1992.



Sources:

Center for Business & Economic Research,
The University of Alabama
The WEFA Group, U.S. Economic Outlook

1990 ALABAMA ECONOMIC OUTLOOK SELECTED INDICATORS

	1988	1989	1990	1991	1992	1993	1994	1995
GROSS STATE PRODUCT - CURRENT \$ (MIL)	63563.9	68784.4	72448.3	77035.9	82271.4	88163.5	94508.6	101238.7
Percent Change	8.0	8.2	5.3	6.3	6.8	7.2	7.2	7.1
GROSS NATIONAL PRODUCT - CURRENT \$ (BIL)	4880.8	5233.5	5541.4	5888.4	6287.8	6739.5	7228.3	7741.5
Percent Change	7.9	7.2	5.9	6.3	6.8	7.2	7.3	7.1
GROSS STATE PRODUCT - 1982 \$ (MIL)	52296.7	54008.6	54942.1	56439.8	58078.2	59796.8	61497.3	63100.3
Percent Change	4.1	3.3	1.7	2.7	2.9	3.0	2.8	2.6
GROSS NATIONAL PRODUCT - 1982 \$ (BIL)	4024.4	4143.6	4220.3	4320.5	4430.8	4551.5	4678.7	4799.9
Percent Change	4.4	3.0	1.9	2.4	2.6	2.7	2.8	2.6
CONSUMER PRICE INDEX (% CHANGE)	4.1	4.8	4.2	3.8	4.5	4.8	4.9	4.9
POPULATION - ALABAMA (MIL)	4.1	4.2	4.2	4.2	4.2	4.3	4.3	4.3
POPULATION - USA (MIL)	246.4	248.8	251.3	253.8	256.2	258.5	260.7	262.8
ALABAMA TOTAL EMPLOYMENT (MIL)	2.0	2.0	2.0	2.1	2.1	2.1	2.2	2.2
Percent Change	2.8	2.0	1.1	1.6	1.8	2.0	2.1	1.7
ALABAMA UNEMPLOYMENT RATE (%)	7.2	7.1	7.8	8.0	7.9	7.6	7.4	7.2
U.S. UNEMPLOYMENT RATE (%)	5.5	5.3	5.7	5.8	5.7	5.4	5.2	5.1
TOTAL PERSONAL INCOME - CURRENT \$ (MIL)	52720.1	57239.1	60888.1	64848.9	69432.6	74632.0	80237.7	86022.6
Percent Change	7.2	8.6	6.4	6.5	7.1	7.5	7.5	7.2
TOTAL PERSONAL INCOME - 1982 \$ (MIL)	42344.3	44020.8	44976.3	46010.8	47071.7	48297.9	49566.7	50742.5
Percent Change	3.2	4.0	2.2	2.3	2.3	2.6	2.6	2.4
ALABAMA PER CAPITA INCOME - CURRENT \$	12852.3	13759.4	14531.8	15367.0	16337.1	17437.4	18573.5	19820.9
Percent Change	6.8	7.1	5.6	5.7	6.3	6.7	6.5	6.7
U.S. PER CAPITA INCOME - CURRENT \$	18500.2	17782.0	18775.6	19872.9	21211.0	22801.3	24014.6	25522.8
Percent Change	6.6	7.8	5.6	5.8	6.7	6.6	6.3	6.3
COMPARATIVE ADVANTAGE	77.9	77.4	77.4	77.3	77.0	77.2	77.3	77.7
PERSONAL CONS. EXP. - CURRENT \$ (BIL)	2598.4	2669.4	2733.2	2795.4	2857.9	2925.6	2995.1	3063.5
Percent Change	3.4	2.7	2.4	2.3	2.2	2.4	2.4	2.3
DURABLE GOODS - CURRENT \$ (BIL)	413.6	425.2	432.7	443.8	453.2	467.5	482.1	494.4
Percent Change	6.2	2.8	1.8	2.6	2.1	3.2	3.1	2.6
NONDURABLE GOODS - CURRENT \$ (BIL)	904.5	916.8	925.0	939.7	955.2	970.9	988.2	1006.1
Percent Change	1.6	1.4	0.9	1.6	1.6	1.7	1.8	1.8
SERVICES - CURRENT \$ (BIL)	1280.2	1327.4	1375.5	1411.9	1449.5	1487.2	1524.8	1563.1
Percent Change	3.8	3.7	3.6	2.6	2.7	2.6	2.5	2.5
GROSS PRIVATE DOM. INVESTMENT - CUR \$ (BIL)	715.8	721.3	723.7	748.7	771.9	803.4	838.6	873.4
Percent Change	6.2	0.8	0.3	3.5	3.1	4.1	4.4	4.1
NET EXPORTS OF GOODS & SERV. - CUR \$ (BIL)	-74.9	-52.8	-55.6	-50.6	-32.6	-16.1	0.3	10.6
EXPORTS - CURRENT \$ (BIL)	530.1	588.9	622.4	663.9	711.7	760.1	807.4	853.5
Percent Change	17.6	11.1	5.7	6.7	7.2	6.8	6.2	5.7
IMPORTS - CURRENT \$ (BIL)	605.0	641.7	678.0	714.5	744.3	776.2	807.0	842.9
Percent Change	6.8	6.1	5.6	5.4	4.2	4.3	4.0	4.4
GOVT. PURCH. OF GOODS & SERV. - CUR \$ (BIL)	785.1	805.8	819.0	827.0	833.6	838.7	844.6	852.4
Percent Change	0.4	2.6	1.6	1.0	0.8	0.6	0.7	0.9
FEDERAL - CURRENT \$ (BIL)	328.9	336.8	338.1	34.8	330.7	25.8	321.1	317.4
Percent Change	-3.2	2.4	0.4	-1.0	-1.2	-1.5	-1.4	-1.2
STATE AND LOCAL - CURRENT \$ (BIL)	456.2	469.0	480.8	492.2	502.9	512.9	523.5	535.0
Percent Change	3.2	2.8	2.5	2.4	2.2	2.0	2.1	2.2

SOURCES: CENTER FOR BUSINESS AND ECONOMIC RESEARCH, THE UNIVERSITY OF ALABAMA, & THE WEFA GROUP